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CITY OF MEDICINE HAT TO PURCHASE \$135 MILLION WORTH OF NATURAL GAS RESERVES

Acquisition to extend Production by two years

Medicine Hat – City Council today approved the purchase of 69.5 billion cubic feet (BCF) of shallow natural gas reserves totaling \$135 million in Southwestern Saskatchewan.

The City, together with its wholly-owned subsidiary, Allied Oil & Gas Corp., will purchase the Freeflight Limited Partnership for \$135,275,000.

"This opportunity is the largest purchase in absolute dollars in the City's history, and certainly the largest in reserves since the purchase of Allied Oil & Gas Corp. in late 2001," said Alderman Robert Dumanowski, Energy Committee Chair. "Although the gas will flow from the wells over approximately 15 years, this acquisition is equal to two years worth of production at current production rates. These properties will form part of our "core" shallow gas production portfolio and will fit nicely into our existing Saskatchewan operation."

The City determined the purchase price following a detailed analysis of the properties' gas production volumes, evaluation of cash flows using current GLJ Petroleum Consultants Ltd. price forecasts and operating costs, assessing business and environmental risk, and recognizing the City's return on investment target range.

"Replacement of our natural gas reserves is a mandate of the City of Medicine Hat and this continues to be part of our reinvestment strategy," said Mayor Garth Vallety. "This acquisition will assist the City in maintaining our asset base, but because of the significant investment required it shows clearly why our move to market prices for the local gas commodity is required. In 2001 we could buy 100 BCF of gas for \$137 million, today that same 100 BCF is nearly one and a half times that amount. The funds for any acquisition need to be made available from the ongoing sale of gas."

The City's economic review of the natural gas purchase includes investing approximately \$31.5 million over the next four years to develop proved, non-producing reserves.

"We plan to drill and complete 146 wells on the lands over the next four years, converting about 13.5 BCF of proved, non-producing reserves to valuable production," said Chief Administrative Officer Gerry Labas. "While changes in gas price, operating costs and probable reserves can influence what investments should be, all of these factors are examined as part of the due diligence in making an offer."

Labas, who also serves as President and CEO of Allied Oil & Gas, said, "The Freefight Limited Partnership has substantially 100 per cent working interests in all of the reserves, except for the Crane Lake area where the working interest will be approximately 80 per cent. Allied Oil & Gas Corp. will operate all 1,047 gas wells included in the reserves, as well as the gathering facilities and two compressor plants which are currently leased from a third party."

Many of the Freefight reserves are located within the Great Sandhills area of Southwestern Saskatchewan.

"Operating in this environmentally sensitive area requires more care and demands a higher standard of reporting," added Labas. "The City has operated their substantial Bigstick property in this same area since the Numac Acquisition in 1999".

The Freefight Limited Partnership owns totaled evaluated reserves of 69.5 BCF on a proved, plus probable basis located in Southwestern Saskatchewan, east of Highway 21, north of Maple Creek and south of Leader. Included in the acquisition are properties in the Crane Lake area, located south of the City's Bigstick property.

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